

NORTH LINN COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2007

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North Linn Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2006 Election)		
Richard Balster	President	2007
Dennis Price	Board Member	2006
Elizabeth Benesch	Board Member	2006
Michael L. Schatzle	Board Member	2006
James Meisheid	Board Member	2007
Mark Waring	Board Member	2008
Douglas Winn	Board Member	2008
Board of Education (After September 2006 Election)		
Richard Balster	President	2007
Maureen McEvoy	Board Member	2009
Elizabeth Benesch	Board Member	2009
Debra Zumbach	Board Member	2009
James Meisheid	Board Member (Resigned)	2007
Brad Winn	Board Member (Appointed)	2007
Mark Waring	Board Member	2008
Douglas Winn	Board Member	2008
School Officials		
Larry Boer	Superintendent	2007
Joyce Miller	Business Manager/ District Secretary (Resigned)	2007
Norma Schmidt	Business Manager/ District Secretary (Interim)	2007
Gruhn Law Firm	Attorney	2007

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the  
North Linn Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the North Linn Community School District, Troy Mills, Iowa as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the North Linn Community School District at June 30, 2007, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated February 19, 2008 on our consideration of the North Linn Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 35 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise North Linn Community School District's basic financial statements. Another auditor previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. The supplemental information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 19, 2008

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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North Linn Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### **2007 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$5,560,337 in fiscal 2006 to \$5,686,111 in fiscal 2007, while General Fund expenditures increased from \$5,703,444 in fiscal 2006 to \$5,966,552 in fiscal 2007. This resulted in a decrease in the District's General Fund balance from \$606,067 in fiscal 2006 to a balance of \$329,369 in fiscal 2006, a 45.7% decrease from the prior year.
- The increase in General Fund revenues was attributable to increases in state sources in fiscal 2007. The increase in expenditures was due primarily to increases in salaries and benefits as well as increases in expenses funded by grants received by the District for fiscal 2007.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of North Linn Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report North Linn Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which North Linn Community School District acts solely as an agent or custodial for the benefit of those outside of the District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**

***North Linn Community School District Annual Financial Report***

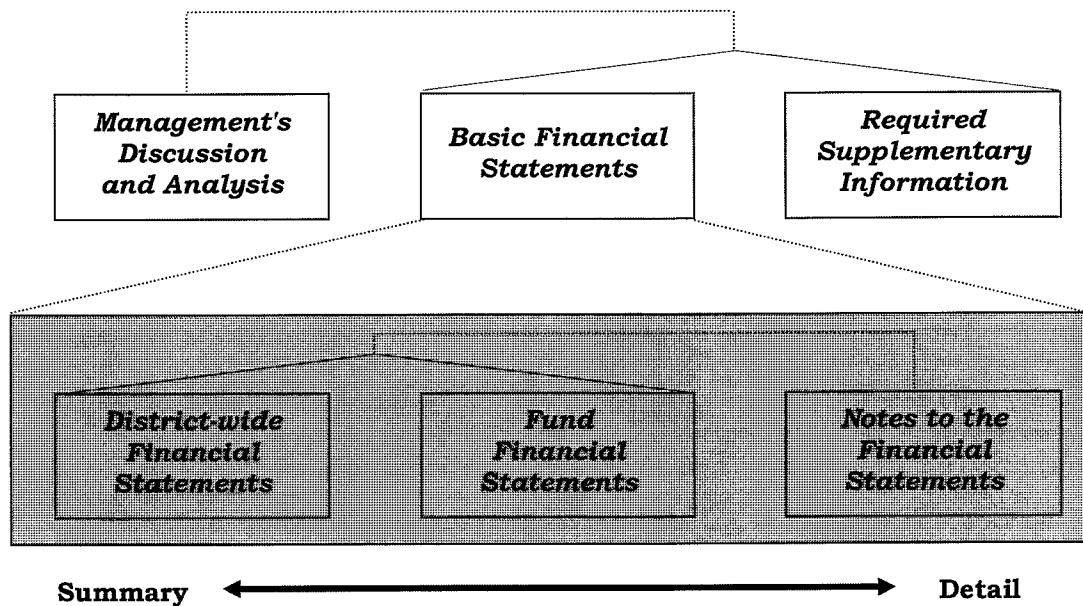


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid



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## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide

financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is a trustee, or fiduciary, for assets that belong to others. These funds include Private-Purpose Trust and Agency Funds.

- Private-Purpose Trust Fund – The District accounts for outside donations and activities of various student groups in this fund.
- Agency Fund – This is the fund through which the District administers and accounts for certain revenues and expenditures on behalf of other organizations.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the Government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2007 compared to June 30, 2006.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Current and other assets	\$ 4,629,465	3,846,891	86,725	82,604	4,716,190	3,929,495	20.02%
Capital assets	4,085,132	4,129,271	29,513	30,971	4,114,645	4,160,242	-1.10%
Total assets	8,714,597	7,976,162	116,238	113,575	8,830,835	8,089,737	9.16%
Long-term obligations	2,796,406	3,019,144	0	0	2,796,406	3,019,144	-7.38%
Other liabilities	3,718,347	2,855,873	22,470	23,317	3,740,817	2,879,190	29.93%
Total liabilities	6,514,753	5,875,017	22,470	23,317	6,537,223	5,898,334	10.83%
Net assets:							
Invested in capital assets, net of related debt	1,455,132	1,274,271	29,513	30,971	1,484,645	1,305,242	13.74%
Restricted	401,786	329,800	0	0	401,786	329,800	21.83%
Unrestricted	342,926	497,074	64,255	59,287	407,181	556,361	-26.81%
Total net assets	\$ 2,199,844	2,101,145	93,768	90,258	2,293,612	2,191,403	4.66%

The District's combined net assets increased by 4.66%, or \$102,209, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$71,986, or 21.83% over the prior year. This increase is mostly attributable to increases in fund balance for the Capital Projects and Physical Plant and Equipment Levy Funds.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – decreased \$149,180, or 26.81%. This decrease in unrestricted net assets was a result of the District's decrease in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2007 compared to the year ended June 30, 2006.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Revenues:							
Program revenues:							
Charges for services	\$ 503,954	486,690	194,779	197,777	698,733	684,467	2.08%
Operating grants and contributions and restricted interest	656,465	592,995	109,507	105,877	765,972	698,872	9.60%
General revenues:							
Property tax	2,465,446	2,171,664	0	0	2,465,446	2,171,664	13.53%
Local option sales and services tax	97,363	94,937	0	0	97,363	94,937	2.56%
Unrestricted state grants	2,946,957	3,019,767	0	0	2,946,957	3,019,767	-2.41%
Other	101,859	61,888	2,431	786	104,290	62,674	66.40%
Total revenues	6,772,044	6,427,941	306,717	304,440	7,078,761	6,732,381	5.14%
Program expenses:							
Governmental activities:							
Instructional	4,209,354	4,037,147	0	0	4,209,354	4,037,147	4.27%
Support services	1,958,771	1,800,390	164	0	1,958,935	1,800,390	8.81%
Non-instructional programs	0	0	303,043	295,108	303,043	295,108	2.69%
Other expenses	505,220	445,006	0	0	505,220	445,006	13.53%
Total expenses	6,673,345	6,282,543	303,207	295,108	6,976,552	6,577,651	6.06%
Change in net assets	98,699	145,398	3,510	9,332	102,209	154,730	-33.94%
Beginning net assets	2,101,145	1,955,747	90,258	80,926	2,191,403	2,036,673	7.60%
Ending net assets	\$ 2,199,844	2,101,145	93,768	90,258	2,293,612	2,191,403	4.66%

Property tax and unrestricted state grants account for 79.92% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.21% of the revenue from business type activities.

The District's total revenues were approximately \$7.08 million of which \$6.77 million was for governmental activities and approximately \$0.31 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.14% increase in revenues and a 6.06% increase in expenses. Property tax revenues increased \$293,782 and local option sales and service tax increased \$2,426 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses funded by grants received by the District.

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## Governmental Activities

Revenues for governmental activities were \$6,772,044 and expenses were \$6,673,345. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2007	2006	Change 2006-07	2007	2006	Change 2006-07
Instruction	\$ 4,209,354	4,037,147	4.27%	3,302,952	3,191,732	3.48%
Support services	1,958,771	1,800,390	8.80%	1,936,499	1,785,461	8.46%
Other expenses	505,220	445,006	13.53%	273,475	225,665	21.19%
Totals	\$ 6,673,345	6,282,543	6.22%	5,512,926	5,202,858	5.96%

- The cost financed by users of the District's programs was \$503,954.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$656,465.
- The net cost of governmental activities was financed with \$2,465,446 in property tax, \$97,363 in local option sales and services tax, \$2,946,957 in unrestricted state grants and \$45,627 in interest income.

## Business-Type Activities

Revenues of the District's business-type activities were \$306,717 and expenses were \$303,207. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the North Linn Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$797,027, below last year's ending fund balances of a \$998,866. However, the primary reason for the decrease in combined fund balances in fiscal 2007 is due to a decrease of \$276,698 in the General Fund due to increases in salary costs.

## Governmental Fund Highlights

- The District's deteriorating General Fund financial position is the product of many factors. Decrease in property tax and federal grant revenue resulted in a decrease in revenues. The increase in revenues was not enough to offset the increase in negotiated salaries and benefits received by District employees as a result of the new agreement reached with the North Linn Education Association.

- The Capital Projects Fund balance increased from \$99,786 in fiscal 2006 to \$122,384 in fiscal 2007. This increase was caused by the District receiving more local option sales tax in 2007 as compared to 2006. Decreased fund expenditures as compared to the previous year also contributed to the increase in fund balance.
- The Physical Plant and Equipment Levy (PPEL) Fund balance increased from a deficit \$105,873 in fiscal 2006 to a \$127,643 in fiscal 2007. This increase was due to the increase in revenues being enough to offset the increase in expenditures during fiscal year 2007.

### Proprietary Fund Highlights

The Proprietary Funds net assets decreased from \$90,258 at June 30, 2006 to \$93,768 at June 30, 2007, representing an increase of 3.89%.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$143,792 more than budgeted revenues, a variance of 2.11%. The most significant variance resulted from the District receiving more in local source revenues than originally anticipated.

Initially, total disbursements were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget disbursements at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual disbursements for the year. The District had to amend the budget one time to reflect increases in salary and benefits expended during the year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2007, the District had invested \$4,085,132, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.11% from last year. More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$205,733.

The original cost of the District's capital assets was \$7,866,339. Governmental funds account for \$7,785,379 with the remainder of \$80,960 in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's construction in progress totaled \$130,196 at June 30, 2006, compared to \$0 reported at June 30, 2007. This decrease resulted from the completion of the wrestling building located on the District's premises.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2007	2006	2007	2006	2007	2006	2006-07
Land	\$ 30,487	30,487	0	0	30,487	30,487	0.00%
Construction in progress	0	130,196	0	0	0	130,196	-100.00%
Buildings	3,700,863	3,572,709	0	0	3,700,863	3,572,709	3.46%
Land improvements	175,730	193,928	0	0	175,730	193,928	-10.36%
Machinery and equipment	178,052	201,951	29,513	30,971	207,565	232,922	-12.22%
Total	\$ 4,085,132	4,129,271	29,513	30,971	4,114,645	4,160,242	-1.11%

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## Long-Term Debt

At June 30, 2007, the District had \$2,796,046 in general obligation and other long-term debt outstanding. This represents a decrease of 7.4% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had outstanding general obligation bonds of \$2,630,000 at June 30, 2007.

The District had early retirement payable of \$166,406 at June 30, 2007.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	2007	2006	
General obligation bonds	\$ 2,630,000	2,855,000	-7.9%
Early retirement	166,406	164,144	1.4%
Totals	<u>\$ 2,796,406</u>	<u>3,019,144</u>	<u>-7.4%</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- On the District's September 2006 certified enrollment, the District showed an increase of 9.9 resident students on Line 1. If this trend would continue in this direction, it would be a definite benefit to the District.
- Low allowable growth over several years and enrollment decreases is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Marge Holub, Business Manager, North Linn Community School District, 3033 Lynx Drive, P.O. Box 200, Troy Mills, Iowa, 52344.

## BASIC FINANCIAL STATEMENTS

NORTH LINN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2007

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and pooled investments:			
ISCAP(Note 3)	\$ 777,769	0	777,769
Other	1,229,613	80,487	1,310,100
Receivables:			
Property tax:			
Delinquent	36,429	0	36,429
Succeeding year	2,298,936	0	2,298,936
Income surtax	121,377	0	121,377
Interest	4,363	0	4,363
Accounts	9,592	0	9,592
Accrued ISCAP interest (Note 3)	232	0	232
Due from other governments	151,154	0	151,154
Inventories	0	6,238	6,238
Capital assets, net of accumulated depreciation (Note 4)	4,085,132	29,513	4,114,645
<b>TOTAL ASSETS</b>	<b>8,714,597</b>	<b>116,238</b>	<b>8,830,835</b>
<b>LIABILITIES</b>			
Accounts payable	166,991	20	167,011
Salaries and benefits payable	460,163	19,962	480,125
Accrued interest payable	7,286	0	7,286
ISCAP warrants payable (Note 3)	779,000	0	779,000
ISCAP accrued interest payable (Note 3)	191	0	191
ISCAP unamortized premium	5,780	0	5,780
Deferred revenue:			
Succeeding year property tax	2,298,936	0	2,298,936
Unearned revenue	0	2,488	2,488
Long-term liabilities (Note 5):			
Portion due within one year:			
General obligation bonds payable	235,000	0	235,000
Early retirement payable	63,715	0	63,715
Portion due after one year:			
General obligation bonds payable	2,395,000	0	2,395,000
Early retirement payable	102,691	0	102,691
<b>TOTAL LIABILITIES</b>	<b>6,514,753</b>	<b>22,470</b>	<b>6,537,223</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	1,455,132	29,513	1,484,645
Restricted for:			
Market factor	5,242	0	5,242
Phase III	6,249	0	6,249
Debt service	19,217	0	19,217
Physical plant and equipment levy	127,643	0	127,643
Capital projects	122,384	0	122,384
Other special revenue purposes	121,051	0	121,051
Unrestricted	342,926	64,255	407,181
<b>TOTAL NET ASSETS</b>	<b>\$ 2,199,844</b>	<b>93,768</b>	<b>2,293,612</b>

SEE NOTES TO FINANCIAL STATEMENTS.



NORTH LINN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2007

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities
Functions/Programs					
Governmental activities:					
Instruction:					
Regular instruction	\$ 2,794,919	216,202	387,401	(2,191,316)	0
Special instruction	815,700	93,883	37,319	(684,498)	0
Other instruction	598,735	171,597	0	(427,138)	0
	4,209,354	481,682	424,720	(3,302,952)	0
Support services:					
Student services	122,142	0	0	(122,142)	0
Instructional staff services	206,936	0	0	(206,936)	0
Administration services	726,952	0	0	(726,952)	0
Operation and maintenance of plant services	597,498	0	0	(597,498)	0
Transportation services	305,243	22,272	0	(282,971)	0
	1,958,771	22,272	0	(1,936,499)	0
Other expenditures:					
Facilities acquisitions	51,065	0	0	(51,065)	0
Long-term debt interest	94,018	0	0	(94,018)	0
AEA flowthrough	231,745	0	231,745	0	0
Depreciation(unallocated)*	128,392	0	0	(128,392)	0
	505,220	0	231,745	(273,475)	0
Total governmental activities	6,673,345	503,954	656,465	(5,512,926)	0
Support services:					
Operation and maintenance of plant services	164	0	0	0	(164)
Business-Type activities:					
Non-instructional programs:					
Nutrition services	303,043	194,779	109,507	0	1,243
Total business-type activities	303,207	194,779	109,507	0	1,079
Total	\$ 6,976,552	698,733	765,972	(5,512,926)	1,079
General Revenues:					
Property tax levied for:					
General purposes				\$ 2,006,890	0
Debt service				315,145	0
Capital outlay				143,411	0
Local option sales and services				97,363	0
Unrestricted state grants				2,946,957	0
Unrestricted investment earnings				45,627	2,431
Gain on sale of equipment				3,743	0
Other				52,489	0
Total general revenues				5,611,625	2,431
Changes in net assets				98,699	3,510
Net assets beginning of year				2,101,145	90,258
Net assets end of year				\$ 2,199,844	93,768

\* This amount excludes the depreciation that is included in the direct expense of various programs

SEE NOTES TO FINANCIAL STATEMENTS.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2007

	General	Other Nonmajor Governmental Funds	Total
<b>ASSETS</b>			
Cash and pooled investments			
ISCAP(Note 3)	\$ 777,769	0	777,769
Other	793,292	436,321	1,229,613
Receivables:			
Property tax:			
Delinquent	25,833	10,596	36,429
Succeeding year	1,667,278	631,658	2,298,936
Income surtax	121,377	0	121,377
Interest	3,803	560	4,363
Accounts	9,592	0	9,592
Accrued ISCAP interest(Note 3)	232	0	232
Due from other governments	126,226	24,928	151,154
<b>TOTAL ASSETS</b>	<b>\$ 3,525,402</b>	<b>1,104,063</b>	<b>4,629,465</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	162,244	4,747	166,991
Salaries and benefits payable	460,163	0	460,163
ISCAP warrants payable(Note 3)	779,000	0	779,000
ISCAP accrued interest payable(Note 3)	191	0	191
ISCAP unamortized premium	5,780	0	5,780
Deferred revenue:			
Succeeding year property tax	1,667,278	631,658	2,298,936
Income surtax	121,377	0	121,377
Total liabilities	3,196,033	636,405	3,832,438
Fund balances:			
Reserved for:			
Market factor	5,242	0	5,242
Phase III	6,249	0	6,249
Debt service	0	19,217	19,217
Unreserved	317,878	448,441	766,319
Total fund balances	329,369	467,658	797,027
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 3,525,402</b>	<b>1,104,063</b>	<b>4,629,465</b>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2007

Total fund balances of governmental funds (page 15)	\$ 797,027
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	4,085,132
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	121,377
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(7,286)
Long-term liabilities, including general obligation bonds payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	(2,796,406)
Net assets of governmental activities (page 13)	<u>\$ 2,199,844</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2007

	General	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>			
Local sources:			
Local tax	\$ 1,705,181	736,251	2,441,432
Tuition	289,849	0	289,849
Other	90,364	224,041	314,405
State sources	3,467,972	521	3,468,493
Federal sources	132,745	0	132,745
Total revenues	5,686,111	960,813	6,646,924
<b>EXPENDITURES:</b>			
Current:			
Instruction:			
Regular instruction	2,786,741	53,723	2,840,464
Special instruction	783,201	32,499	815,700
Other instruction	432,968	164,216	597,184
	4,002,910	250,438	4,253,348
Support services:			
Student services	122,142	0	122,142
Instructional staff services	202,750	4,186	206,936
Administration services	646,436	34,872	681,308
Operation and maintenance of plant services	496,462	98,597	595,059
Transportation services	264,107	19,064	283,171
	1,731,897	156,719	1,888,616
Other expenditures:			
Facilities acquisitions	0	159,217	159,217
Long-term debt:			
Principal	0	225,000	225,000
Interest and fiscal charges	0	94,580	94,580
AEA flowthrough	231,745	0	231,745
	231,745	478,797	710,542
Total expenditures	5,966,552	885,954	6,852,506
Excess(Deficiency) of revenues over(under) expenditures	(280,441)	74,859	(205,582)
Other financing sources:			
Sale of equipment	3,743	0	3,743
Net change in fund balances	(276,698)	74,859	(201,839)
Fund balance beginning of year	606,067	392,799	998,866
Fund balance end of year	\$ 329,369	467,658	797,027

SEE NOTES TO FINANCIAL STATEMENTS.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2007

Net change in fund balances - total governmental funds (page 17) \$ (201,839)

**Amounts reported for governmental activities in the  
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 155,304	
Depreciation expense	<u>(199,443)</u>	(44,139)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets	225,000
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Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds.	121,377
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	562
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	<u>(2,262)</u>
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<b>Changes in net assets of governmental activities (page 14)</b>	<b><u>\$ 98,699</u></b>
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SEE NOTES TO FINANCIAL STATEMENTS.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2007

	<u>School</u> <u>Nutrition</u>
ASSETS	
Cash and cash equivalents	\$ 80,487
Inventories	6,238
Capital assets, net of accumulated depreciation (Note 4)	29,513
TOTAL ASSETS	<u>116,238</u>
LIABILITIES	
Accounts payable	20
Salaries and benefits payable	19,962
Unearned revenue	2,488
TOTAL LIABILITIES	<u>22,470</u>
NET ASSETS	
Invested in capital assets	29,513
Unrestricted	64,255
TOTAL NET ASSETS	<u>\$ 93,768</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 194,779
OPERATING EXPENSES:	
Support services:	
Operation and maintenance of plant services	164
Non-instructional programs:	
Food service operations:	
Salaries	125,804
Benefits	17,162
Services	1,660
Supplies	152,127
Depreciation	6,290
TOTAL OPERATING EXPENSES	<u>303,207</u>
OPERATING LOSS	<u>(108,428)</u>
NON-OPERATING REVENUES:	
State sources	3,937
Federal sources	105,570
Interest income	2,431
TOTAL NON-OPERATING REVENUES	<u>111,938</u>
Change in net assets	3,510
Net assets beginning of year	<u>90,258</u>
Net assets end of year	<u>\$ 93,768</u>

SEE NOTES TO FINANCIAL STATEMENTS.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2007

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 199,395
Cash received from miscellaneous operating activities	3,336
Cash payments to employees for services	(141,718)
Cash payments to suppliers for goods or services	(141,781)
Net cash used in operating activities	<u>(80,768)</u>
Cash flows from non-capital financing activities:	
State grants received	3,937
Federal grants received	91,329
Net cash provided by non-capital financing activities	<u>95,266</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	<u>(4,832)</u>
Cash flows from investing activities:	
Interest on investments	<u>2,431</u>
Net increase in cash and cash equivalents	12,097
Cash and cash equivalents at beginning of year	<u>68,390</u>
Cash and cash equivalents at end of year	<u>\$ 80,487</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (108,428)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	14,241
Depreciation	6,290
Decrease in inventories	225
Decrease in accounts payable	(2,296)
Decrease in accounts receivable	7,751
Increase in salaries and benefits payable	1,248
Increase in unearned revenue	201
Net cash used in operating activities	<u>\$ (80,768)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 80,487</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2007, the District received Federal commodities valued at \$14,241.

SEE NOTES TO FINANCIAL STATEMENTS.



NORTH LINN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2007

	Private Purpose Trust	
	Scholarship	Agency
ASSETS		
Cash and pooled investments	\$ 13,259	19,806
LIABILITIES		
Accounts payable	0	1,660
Due to other groups	0	18,146
TOTAL LIABILITIES	0	19,806
NET ASSETS		
Reserved for scholarships	13,259	0
TOTAL NET ASSETS	\$ 13,259	0

SEE NOTES TO FINANCIAL STATEMENTS.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
YEAR ENDED JUNE 30, 2007

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest income	\$ 251
Deductions:	
Instruction:	
Scholarships awarded	2,000
Change in net assets	(1,749)
Net assets beginning of year	15,008
Net assets end of year	\$ 13,259

SEE NOTES TO FINANCIAL STATEMENTS.

NORTH LINN COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The North Linn Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Walker, Troy Mills and Coggon, Iowa, and the predominate agricultural territory in Benton, Buchanan, Delaware and Linn Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, North Linn Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The North Linn Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Benton, Buchanan, Delaware and Linn Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed

from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental fund:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The District's proprietary fund is the School Nutrition Fund. The Nutrition fund is used to account for the food service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations and other governments. The Agency Fund is custodial in nature, assets equal liabilities and does not involve measurement of results of operations.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB

pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on a cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2006.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,500
Buildings	2,500
Land improvements	2,500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	2,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20-50 years
Machinery and equipment	4-12 years

Salaries and Benefits Payable - Payroll and related expenditures corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial

statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The revenue will be considered earned when services are provided. The lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, the District did not exceed budgeted amounts.

### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2007 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. At June 30, 2007, the District had no investments.



(3) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2007 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A	6/27/2007	6/27/2008	\$ 777,769	232	779,000	191

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. There was no advance activity during the year ended June 30, 2007.

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.455%

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Machinery and equipment	\$ 76,128	4,832	0	80,960
Less accumulated depreciation	45,157	6,290	0	51,447
Business-type activities capital assets, net	\$ 30,971	(1,458)	0	29,513

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 30,487	0	0	30,487
Construction in progress	130,196	88,327	218,523	0
Total capital assets not being depreciated	160,683	88,327	218,523	30,487
Capital assets being depreciated:				
Buildings	5,656,078	238,348	0	5,894,426
Land improvements	519,364	0	0	519,364
Machinery and equipment	1,293,950	47,152	0	1,341,102
Total capital assets being depreciated	7,469,392	285,500	0	7,754,892
Less accumulated depreciation for:				
Buildings	2,083,369	110,194	0	2,193,563
Land improvements	325,436	18,198	0	343,634
Machinery and equipment	1,091,999	71,051	0	1,163,050
Total accumulated depreciation	3,500,804	199,443	0	3,700,247
Total capital assets being depreciated, net	3,968,588	86,057	0	4,054,645
Governmental activities capital assets, net	\$ 4,129,271	174,384	218,523	4,085,132

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 24,525
Other	1,551
Support services:	
Administration	1,400
Operation and maintenance of plant	2,439
Transportation	41,136
	71,051
Unallocated depreciation	128,392
Total governmental activities depreciation expense	\$ 199,443
Business-type activities:	
Food service operations	\$ 6,290

##### (5) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 2,855,000	0	225,000	2,630,000	235,000
Early retirement	164,144	59,222	56,960	166,406	63,715
Total	\$ 3,019,144	59,222	281,960	2,796,406	298,715

### General Obligation Bonds Payable

Details of the District's June 30, 2007 general obligation bonded indebtedness is as follows:

Year	Ending June 30,	Interest Rates	Principal	Interest	Total
2008		3.85 % \$	235,000	87,430	322,430
2009		3.75	240,000	80,380	320,380
2010		3.85	255,000	73,180	328,180
2011		3.75	260,000	65,275	325,275
2012		3.85	270,000	56,955	326,955
2013		3.75	280,000	48,180	328,180
2014		3.85	290,000	38,800	328,800
2015		3.75	300,000	28,940	328,940
2016		3.75	310,000	18,440	328,440
2017		3.75	190,000	7,125	197,125
Total			\$ 2,630,000	504,705	3,134,705

### Early Retirement

The District offers a voluntary early retirement plan to its licensed employees, administrators and board secretary. This voluntary early retirement plan is offered annually at the Board's discretion. Eligible employees must have been at least age fifty-five and have completed twenty years of consecutive service to the District. Employees must have completed an application, which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to one-third of the employee's contracted teaching salary. Contracted extra-curricular salary, Phase II, Phase III, and Teacher Quality payments are excluded from the salary schedule for determining the employee's contracted salary. In addition to the cash payment, the retiree will receive \$400 per month deposited into a Health Reimbursement Account to be used for eligible medical expenses as defined by IRS Code 213. Employees will receive early retirement benefits in two payments the year following separation from the District. Early retirement benefits paid during the year ended June 30, 2007 totaled \$56,960.

### **(6) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2007, 2006 and 2005. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$215,307, \$207,642, and \$198,933 respectively, equal to the required contributions for each year.

**(7) Risk Management**

North Linn Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(8) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$231,745 for the year ended June 30, 2007 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

NORTH LINN COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2007

	Governmental	Proprietary		Budgeted Amounts		Final to
	Fund Types	Fund Type	Total			Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues:						
Local sources	\$ 3,045,686	197,210	3,242,896	3,174,070	3,174,070	68,826
State sources	3,468,493	3,937	3,472,430	3,435,279	3,435,279	37,151
Federal sources	132,745	105,570	238,315	200,500	200,500	37,815
Total revenues	6,646,924	306,717	6,953,641	6,809,849	6,809,849	143,792
Expenditures:						
Instruction	4,253,348	0	4,253,348	4,168,302	4,274,445	21,097
Support services	1,888,616	164	1,888,780	1,937,050	1,937,050	48,270
Non-instructional programs	0	303,043	303,043	311,250	311,250	8,207
Other expenditures	710,542	0	710,542	845,781	845,781	135,239
Total expenditures	6,852,506	303,207	7,155,713	7,262,383	7,368,526	212,813
Excess(deficiency) of revenues over(under) expenditures	(205,582)	3,510	(202,072)	(452,534)	(558,677)	(356,605)
Other financing sources, net	3,743	0	3,743	0	0	(3,743)
Excess(deficiency) of revenues over(under) expenditures	(201,839)	3,510	(198,329)	(452,534)	(558,677)	(360,348)
Balance beginning of year	998,866	90,258	1,089,124	900,932	900,932	188,192
Balance end of year	\$ 797,027	93,768	890,795	448,398	342,255	548,540

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$106,143.

OTHER SUPPLEMENTARY INFORMATION



NORTH LINN COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2007

	Special Revenue						
	Manage- ment Levy	Student Activity	Physical Plant & Equipment Levy	Total Special Revenue	Capital Projects	Debt Service	Total Nonmajor Governmental Funds
ASSETS							
Cash and pooled investments	\$ 74,390	122,488	125,719	322,597	99,766	13,958	436,321
Receivables:							
Property tax:							
Current year delinquent	2,973	0	2,364	5,337	0	5,259	10,596
Succeeding year	212,200	0	97,028	309,228	0	322,430	631,658
Interest	0	0	280	280	280	0	560
Due from other governments	0	0	0	0	24,928	0	24,928
TOTAL ASSETS	\$ 289,563	122,488	225,391	637,442	124,974	341,647	1,104,063
LIABILITIES AND FUND BALANCES							
Liabilities:							
Accounts payable	\$ 0	1,437	720	2,157	2,590	0	4,747
Deferred revenue:							
Succeeding year property tax	212,200	0	97,028	309,228	0	322,430	631,658
Total liabilities	212,200	1,437	97,748	311,385	2,590	322,430	636,405
Fund balances:							
Reserved for debt service	0	0	0	0	0	19,217	19,217
Unreserved fund balances	77,363	121,051	127,643	326,057	122,384	0	448,441
Total fund balances	77,363	121,051	127,643	326,057	122,384	19,217	467,658
TOTAL LIABILITIES AND FUND BALANCES	\$ 289,563	122,488	225,391	637,442	124,974	341,647	1,104,063

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2007

	Special Revenue						Total Nonmajor Governmental Funds
	Manage- ment Levy	Student Activity	Physical Plant & Equipment Levy	Total Special Revenue	Capital Projects	Debt Service	
REVENUES:							
Local sources:							
Local tax	\$ 180,332	0	143,411	323,743	97,363	315,145	736,251
Other	28,911	171,788	2,832	203,531	16,735	3,775	224,041
State sources	151	0	103	254	0	267	521
TOTAL REVENUES	209,394	171,788	146,346	527,528	114,098	319,187	960,813
EXPENDITURES:							
Current:							
Instruction:							
Regular instruction	53,723	0	0	53,723	0	0	53,723
Special instruction	32,499	0	0	32,499	0	0	32,499
Other instruction	0	163,116	1,100	164,216	0	0	164,216
Support services:							
Instructional staff	0	0	4,186	4,186	0	0	4,186
Administration services	2,363	0	32,509	34,872	0	0	34,872
Operation and maintenance of plant services	98,597	0	0	98,597	0	0	98,597
Student transportation	0	0	19,064	19,064	0	0	19,064
Other expenditures:							
Facilities acquisition	0	0	67,717	67,717	91,500	0	159,217
Long-term debt:							
Principal	0	0	0	0	0	225,000	225,000
Interest and fiscal charges	0	0	0	0	0	94,580	94,580
TOTAL EXPENDITURES	187,182	163,116	124,576	474,874	91,500	319,580	885,954
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	22,212	8,672	21,770	52,654	22,598	(393)	74,859
FUND BALANCE BEGINNING OF YEAR	55,151	112,379	105,873	273,403	99,786	19,610	392,799
FUND BALANCE END OF YEAR	\$ 77,363	121,051	127,643	326,057	122,384	19,217	467,658

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2007

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Track	\$ 727	1,387	2,114	0
Golf	476	28	440	64
Boys Basketball	2,359	3,837	3,242	2,954
Football	3,348	5,745	6,354	2,739
Baseball	2,230	2,180	3,986	424
Wrestling	2,674	8,532	7,401	3,805
Girls Basketball	2,353	5,364	4,621	3,096
Volleyball	1,883	3,017	1,807	3,093
Softball	3,380	2,838	6,547	(329)
Class of 2006	75	0	75	0
Class of 2007	3,071	0	2,811	260
Class of 2008	0	12,582	9,638	2,944
Speech	(60)	747	519	168
Vocal Music	3,267	16,149	16,668	2,748
Instrumental Music	41	1,854	1,844	51
Wellness	28	0	28	0
Entrepreneurship	510	152	145	517
Publication	10,380	8,690	7,202	11,868
Cheerleaders	357	0	306	51
Pom Pom Squad	86	0	56	30
Peer Groups	581	0	0	581
National Honor Society	475	1,100	464	1,111
HS Student Council	9,756	6,779	4,680	11,855
FFA	5,071	42,102	39,827	7,346
FCCLA	563	302	423	442
Vending Machines	74	0	74	0
Mills Br. Scholarship	925	28	101	852
Weight Room	62	922	0	984
MS Student Council	25,557	28,070	24,558	29,069
FBLA	947	1,268	2,215	0
JH Society	439	241	363	317
Coggon Store	986	0	208	778
Walker Store	1,647	1,400	2,198	849
School Pictures	7,518	29	643	6,904
Now Interest	6,485	3,265	192	9,558
Recycling Program - Coggon	7,013	6,689	6,475	7,227
Recycling Program - Walker	1,825	6,328	4,691	3,462
McKinley Scholarship	5,270	163	200	5,233
Total	\$ 112,379	171,788	163,116	121,051

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2007

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 6,133	77,362	63,689	19,806
LIABILITIES				
Accounts payable	0	1,660	0	1,660
Due to other groups	6,133	75,702	63,689	18,146
TOTAL LIABILITIES	\$ 6,133	77,362	63,689	19,806

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	Years Ended June 30,			
	2007	2006	2005	2004
Revenues:				
Local sources:				
Local tax	\$ 2,441,432	2,406,429	2,356,926	2,318,829
Tuition	289,849	292,486	237,936	198,987
Other	314,405	238,821	319,973	252,767
State sources	3,468,493	3,328,149	3,268,618	3,050,813
Federal sources	132,745	146,804	127,656	146,379
Total	<u>\$ 6,646,924</u>	<u>6,412,689</u>	<u>6,311,109</u>	<u>5,967,775</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	\$ 2,840,464	2,791,580	2,461,292	2,534,032
Special instruction	815,700	704,901	639,555	754,462
Other instruction	597,184	425,199	641,595	475,431
Support services:				
Student services	122,142	128,534	123,198	115,550
Instructional staff services	206,936	199,810	232,046	186,579
Administration services	681,308	606,137	549,813	541,624
Operation and maintenance of plant services	595,059	601,239	592,889	506,464
Transportation services	283,171	351,768	258,706	219,151
Central support services	0	0	0	300
Other expenditures:				
Facilities acquisitions	159,217	147,017	91,831	131,972
Long-term debt:				
Principal	225,000	225,000	215,000	195,000
Interest	94,580	101,330	107,780	124,574
AEA flow-through	231,745	219,341	217,479	214,176
Total	<u>\$ 6,852,506</u>	<u>6,501,856</u>	<u>6,131,184</u>	<u>5,999,315</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3050  
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards

To the Board of Education of the  
North Linn Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of North Linn Community School District as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated February 19, 2008. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered North Linn Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of North Linn Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of North Linn Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects North Linn Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of North Linn Community School District's financial statements that is more than inconsequential will not be prevented or detected by North Linn Community School District's internal control. We consider the deficiencies in internal control described in Part I of the Findings Related to the General Purpose Financial Statements.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by North Linn Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether North Linn Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

North Linn Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit North Linn Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of North Linn Community School District and other parties to whom North Linn Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of North Linn Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

February 19, 2008

NORTH LINN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part I: Findings Related to the General Purpose Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

SIGNIFICANT DEFICIENCIES:

- I-A-07 Segregation of Duties – The limited number of accounting personnel makes it difficult to achieve adequate internal control through the segregation of duties. We noted that the same individual performs the following duties: recording and processing cash receipts, preparing checks and bank reconciliations, preparation of journals and general financial information. A small staff makes it difficult to establish an ideal system of internal control, but the District has taken steps to segregate duties between current personnel.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

- I-B-07 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches.

Response - We will review our procedures and implement changes in order to comply with the Department of Labor requirements.

Conclusion - Response accepted.

- I-C-07 Agency Fund - During our audit we noted the District utilizes an Agency Fund. According to Chapter 9 of the LEA Administrative Manual, "Agency funds are used to account for assets received and held as an agent for individuals, private organizations, or other governments. Agency Funds could include money collected for another government, a grant consortium when the District serves as fiscal agent for the other districts but has no managerial responsibilities, and funds for a teacher or a parent-teacher organization which has its own Federal Identification Number. The District acts as a custodian of the assets and not an owner. Agency Funds may be created when an organization which is related to the operation of the District places certain assets into the custody of the District. The District renders a service, as custodian, for the organization providing the assets. Agency funds typically involve only the receipt, temporary investment and remittance of assets to their rightful owners. Moneys owned by the District would not be accounted for in the Agency Fund".



The District appears to be improperly accounting for activity funds as agency accounts. The Agency Fund currently has a former activity account that appears to be money from graduated class accounts from the Activity Fund. Since the moneys from these activities are in fact the District's money, the money being placed in the Agency Fund is inappropriate. The District should transfer the money in this account into the Activity Fund. The money should be allocated to another student activity account rather than placed in the Agency Fund.

The Agency Fund currently has a Book Fees account. The District buys books and other instructional supplies from the General Fund; therefore it is logical that any money derived from book rental fees or book damage fees be placed in the General Fund.

The Agency Fund currently has a Wrestling Room account. It appears that the District conducted fundraisers as a means for paying for wrestling room construction. Revenues for the fundraisers were placed in the Agency Fund and subsequent expenditures for the wrestling room construction came from the same Agency Fund account. Since the funds used for the construction are District funds, the Agency Fund is not an appropriate fund to receipt revenues or record expenditures for the wrestling room construction. Remaining funds in this account should be transferred to the Capital Projects Fund. All subsequent revenues and expenditures for this project should also be recorded in the Capital Projects Fund. As previously noted, District funds should not be reported in the Agency Fund.

The Agency Fund also includes a Quest and Mat Refurbishing accounts. During the year ended June 30, 2007, there was no activity in these two accounts. The District needs to determine the source and the purpose of the money in these two accounts. Once a purpose has been determined, the necessary transfers should be made to the funds from which the money can legally be expended.

Recommendation - The purpose of the Agency Fund is to account for financial transactions the District makes as a custodial agent according to Chapter 9 of the LEA Administrative Manual. The District should close the accounts in the Agency Fund and transfer the balances into the appropriate fund from which the moneys would be appropriately receipted and expended. The District should refrain from reporting District assets in the Agency Fund.

Response - We will change accounting procedures so that accounts within the Agency Fund meet guidelines set forth in Chapter 9 of the LEA Administrative Manual.

Conclusion - Response accepted.

- I-D-07 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). More specific examples of these instances of questioned items and recommendations are as follows:

Donations made to a District should be placed in the most appropriate place based upon the donor request. Target and Box Tops donations do not specify the purpose, other than instructional supplies; therefore, they should be receipted into the General Fund for use in all instructional supplies/services.

There is a Now Interest account in the Student Activity Fund. Moneys in this account should be allocated amongst the individual activity fund accounts that earned the interest during the year. Allocation of interest should be done at least annually.

There is a School Picture account. The District should review expenditures from this account for allowability from the Activity Fund. The District should determine the source of funds in this account. If it is found that picture commissions were placed in this account then the remaining funds should be transferred to the General Fund. Commissions received can only be receipted to the General Fund.

There are two scholarship accounts (Mills and McKinley) in the Activity Fund. Money was donated and invested in certificates of deposit for the purpose of giving scholarships annually to students upon graduation. The Activity Fund is not a proper fund to be accounting for scholarships. The money for these two scholarships should be transferred to the Private Purpose Trust Fund.

The District should review the properness of receipts and expenditures that are recorded in the Student Activity Fund. It would appear that some of the accounts appear to be more administratively maintained in nature, rather than maintained by a club or organization. Therefore, they need to be corrected or transferred to the proper fund where these monies can be receipted and expended.

Response - We will move the scholarship accounts into the Private Purpose Trust Fund. We will also review our Student Activity Fund to make sure accounts are properly coded and moved to the correct fund if deemed necessary. Interest will be allocated at least annually to the accounts that earned the interest.

Conclusion - Response accepted.

NORTH LINN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2007

Part II: Other Findings Related to Required Statutory Reporting:

- II-A-07 Certified Budget - District disbursements for the year ended June 30, 2007, did not exceed amounts budgeted.
- II-B-07 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-07 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- II-D-07 Business Transactions - No business transactions between the District and District officials were noted.
- II-E-07 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-07 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.
- II-G-07 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-07 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy; however we noted the District was not adjusting investments in certificates of deposit on the general ledger as interest was being compounded. It was also noted that the District has several certificates of deposit with maturities of thirty days which creates confusion as to which certificate of deposit belongs to which fund and which certificate has matured.

Recommendation - Investments in certificates of deposit should be adjusted to actual as interest is compounded not just when the certificate of deposit is redeemed. The District should maintain an investment schedule which would identify the certificate of deposit number, date purchased, maturity, amount, interest rate, and the fund the certificate of deposit belongs to. The District may consider investing in an Iowa Schools Joint Investment Trust (ISJIT) or other money market type account if the yield is considered satisfactory. The current practice of thirty day certificates of deposit with competitive bidding can be time consuming and may provide similar yield to current ISJIT or money market investments.

Response - We will review our procedures with the Board of Education and make changes in our current investment procedures if deemed necessary. We will maintain an investment schedule and book interest as it is compounded.

Conclusion - Response accepted.

- II-I-07 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- II-J-07 Financial Condition - We noted during our audit that the Special Revenue, Student Activity Fund has one deficit account totaling \$329.

Recommendation - The District should continue to monitor this account and investigate alternatives to eliminate the deficit.

Response - We will review our Student Activity fund procedures to eliminate deficit accounts.

Conclusion - Response accepted.